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FM AMEMBASSY KUALA LUMPUR  
TO RUEHC/SECSTATE WASHDC 1790  
INFO RUEATRS/DEPT OF TREASURY WASHINGTON DC  
RUCPDO/DEPT OF COMMERCE WASHINGTON DC  
RHEBAAA/DEPT OF ENERGY WASHINGTON DC  
RUEHGV/USMISSION GENEVA 1621  
RUCNASE/ASEAN MEMBER COLLECTIVE  
RUEHZU/APEC MEMBER COLLECTIVE  
RUCNISL/ISLAMIC COLLECTIVE  
RUEHNE/AMEMBASSY NEW DELHI 0804

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STATE PASS USTR - WEISEL AND BELL  
STATE PASS FEDERAL RESERVE AND EXIMBANK  
STATE PASS FEDERAL RESERVE SAN FRANCISCO TCURRAN  
SINGAPORE PASS TO SBAKER  
USDOC FOR 4430/MAC/EAP/M.HOGGE  
TREASURY FOR OASIA AND IRS  
GENEVA FOR USTR  
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SUBJECT: MALAYSIAN POLICIES ADDRESS FINANCIAL UNCERTAINTIES

11. (U) Summary: On October 16, Malaysia's central bank announced an expanded deposit insurance program designed to dampen local concerns raised by the global financial crisis (septel Singapore). With a 37 percent year-to-date fall of the Malaysian stock market and revised 2009 economic growth forecasts from 5.5 percent down to 3.5 percent, Deputy Prime Minister/Finance Minister Najib Razak announced a second set of measures on October 20 to shore up the financial sector, increase investment and boost the country's economic competitiveness. Najib told the press that the assets of a government-owned mutual fund would be doubled to ten billion ringgit to revive confidence in the stock market. In addition, Najib said foreign investment restrictions on the property and commercial sectors would be reviewed, and the services sector would be liberalized with details to be announced later. Addressing fiscal issues, Najib said government expenditures for 2009 would not be cut, but priorities could change. End summary.

#### FINANCE MINISTER ANNOUNCES NEW MEASURES

12. (U) On October 20 DPM/Finance Minister Najib Razak, who is expected to take over as Prime Minister within the next six months, announced three new measures to support the economy which is weakening in the face of pressures created by the global financial crisis. First, the government would double the size of Valuecap, a state-owned asset management body, to RM 10 billion (USD 2.9 billion) to enable it to buy undervalued shares in an effort to prop up the local stock market. Second, in an effort to attract more overseas interest in the property and commercial sectors, foreign investment rules would be "reviewed," he said. Third, in order to boost Malaysia's competitiveness in a slowing world market, the services sector would be liberalized. Details would be announced later, he said. These measures followed on the central bank's announcement of expanded deposit insurance October 16 designed to convince jittery investors to keep their funds in country.

13. (U) The Malaysian government drew up these policy measures to counter negative economic trends growing out of the global financial crisis. From the beginning of the year to October 20, the Kuala Lumpur Composite Index has lost 37 percent, foreign exchange reserves have dropped and leading think tanks have begun announcing substantial downward revisions in 2009 GDP growth figures. The Malaysian Institute for Economic Research (MIER) last week predicted 2009 economic growth would slow to 3.5 percent, in contrast with the government's figure of 5.4 percent. MIER also stated that Malaysia

risked falling into a real recession at the end of 2009. On October 20 the Malaysian Rating Corporation Berhad (MARC) issued its GDP forecast of 3.4 percent growth for 2009.

#### 2009 BUDGET MAY NEED TO BE "TWEAKED"

¶4. (U) Najib also told reporters Malaysia may need to "tweak" its budget deficit targets. As a net exporter of oil, the GOM receives nearly 40 percent of its federal budget from Petronas, the national oil company. Earlier budget deficits, based on record high oil prices, put the fiscal deficit at 4.8 percent for 2008 and 3.6 percent for 2009. In spite of ballooning deficit projections, Najib said that there would be no cutback in planned expenditures for 2009; however, the GOM may need to "shift its priorities" to projects that "improve the social safety net" and "yield greater economic returns." Earlier statements by the PM suggested that planned infrastructure and development projects could be sidelined.

#### COMMENT

¶5. (SBU) Doubling the money to buy up distressed stocks appears to come at a good time, with Asian markets just now showing signs of a bounceback. One local investment banker told Econoff that he believed the RM 5 billion injection would be sufficient to give a boost to the market. Najib's proposals for liberalizing foreign investment restrictions and the services sector are a welcome indicator that some in the government realize it needs to address domestic reforms to counter external pressures. Although too vague at this stage to prompt a serious response from investors, they are

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a positive counterpoint to the "old think" proposals of the Second Finance Minister Nor Yakcop who continues to rail against the "system of liberal capitalism led by the United States." UK-trained Najib is perceived as a decisive leader who can get things done. Najib's takeover as Finance Minister could leave anti-free market Nor Yakcop a lame duck, and the global financial crisis might provide Najib the political cover to implement the kinds of reforms Malaysia needs to rejuvenate its flagging competitiveness if he is willing to risk challenging vested interests.